



THE CITY OF SAN DIEGO
CITIZENS REVENUE REVIEW AND ECONOMIC COMPETITIVENESS COMMISSION

June 8, 2010

Hon. Tony Young
Chair, Budget & Finance Committee
San Diego City Council
202 C Street
San Diego, CA 92101

Hon. Chairman Young:

Our Commission is making significant progress identifying possible strategies to encourage competitiveness and increase City revenues. However, we have hit some snags that could impede our future efforts. In specific, our Commission seeks to study possible revenues from beach area parking, a commercial parking lot tax, fees for repeat false fire alarms, and from a redesigned business tax structure.

Unfortunately, we are unable to give meaningful input to these areas without increased cooperation from the City.

By motions of our Commission duly passed on June 3, 2010, we request that the Budget & Finance Committee help us with the following informational requests:

1. Beach Parking: To enable us to analyze the potential for additional revenue from metered or lot-controlled parking at beach and bay areas, we request that the City provide us with all information regarding the number of curbside parking meters that might be installed in beach areas; the number of paid parking spaces that might be created in City owned lots outside of Mission Bay (as defined by Proposition C); a detail of Mission Bay Park potential parking spaces; and the General Fund costs of maintaining Mission Bay Park. We have previously requested much of this information from the City and were advised that no such studies exist. We have subsequently been reliably informed that most or all of this information is, in fact, available to the City in previous analyses and related spreadsheets dating back to 2005 as well as more current data . We hope this information could be promptly transmitted to the IBA to help us analyze it.
2. Business Taxes: Our Commission wishes to study a possible new structure for business taxes based on gross receipts. If we are to have a meaningful dialog among the community and ourselves on this topic, we need to model how various scenarios

might affect the tens of thousands of businesses in San Diego. The best way – perhaps the only way – to do this would be to access an anonymous list of businesses that currently have City business tax certificates correlated to their annual gross ordinary business income as reported to the California Franchise Tax Board (FTB). We believe this information to be available to the City pursuant to the reciprocal sharing of information between the City and the FTB (see accompanying letter from the office of the City Treasurer dated July 16, 2008.) We previously requested anonymous information on business taxpayers from the City but were informed that our Commission is not entitled to this data – even with no taxpayer name or address attached – because we are not considered an “official” purpose under the Municipal Code. Clearly, the City Council and the Independent Budget Analyst are “official” entities; thus we hope you can arrange for the requested data to be transmitted to the Office of the Independent Budget Analyst so they can help us simulate various possible tax models.

We wish to study other matters where access to information possibly in the hands of the City would be essential if we are to give serious analysis to the matter. I likewise request your assistance to help us determine if pertinent information is available on these matters:

Commercial Parking Tax: Any data, estimates, and analysis that may be in the possession of or available to City departments or the administration regarding the number of commercial parking lots and structures and related parking spaces; if possible identified geographically (downtown, Kearny Mesa, UTC, La Jolla, etc.).

False Fire Alarm Fees: Any data, estimates, and analysis that may be in the possession of City departments or administration regarding the annual number of false fire alarms and related City costs. We believe this study has been done or is underway. Even knowing when the data will become available to us could be useful in planning our work.

Thank you for the support we receive from your Committee, your staff, and the Office of the Independent Budget Analyst.

Sincerely,



Bob Nelson, Chair

cc: Hon. Kevin Faulconer, Hon. Todd Gloria, Hon. Carl DeMaio, Hon. Marti Emerald
CRRECC Members
Andrea Tevlin, Independent Budget Analyst
Paul Prather, Office of the City Attorney
Julie Dubick, Director of Policy, Office of the Mayor



THE CITY OF SAN DIEGO
MAYOR JERRY SANDERS

M E M O R A N D U M

DATE: July 16, 2008

TO: Budget and Finance Committee

FROM: Office of the City Treasurer

SUBJECT: Business Tax Compliance – Franchise Tax Board Program Update

On June 1, 2007 the Office of the City Treasurer Business Tax Program entered into a contract with the Franchise Tax Board (FTB) to purchase the FTB's 2005 tax data for its compliance efforts. In 2001, Assembly Bill 63 was passed allowing the FTB to disclose certain information about taxpayers reporting income as a trade or business. Cities that participate in the program receive a list of taxpayers that filed a business income tax return with the State of California. Business and Professions Code §16300 allows the presumption that any taxpayer filing a business return with the FTB is operating as a business entity.

This annual renewable contract with the FTB allows the City to effectively administer its Business Tax compliance efforts by matching the Treasurer's Tax Collection System (TTCS) against the FTB data to identify businesses that do not hold a valid Business Tax Certificate. In essence, this program permits the City to efficiently target non-compliant business owners and streamline compliance.

The FTB program was initially estimated to generate approximately \$7.6 million in FY07 and FY08, representing 47,000 business compliance leads. In June of 2007, the Business Tax program released its first 12,000 billing statements for businesses presumed to be out-of-compliance. During the first few months of implementation, significant challenges forced a re-evaluation of the initial implementation plan. Many taxpayers were dissatisfied with the tax liability notice and believed that the City should have previously notified them of their obligation to pay the Business Tax.

As a result, the FTB compliance implementation was re-evaluated and the program was placed on hold. Treasury staff consulted extensively with both the Mayor's Office and City Attorney's Office to retool the initial implementation plan. A new strategy was developed that provided the taxpayer with notification of the possible tax liability 30 days prior to issuing the billing

statement. This change provides an opportunity for taxpayers to pay the tax assessment without incurring the non-compliant surcharge.

In collaboration with the Personnel Department, the Office of the City Treasurer reclassified four Business Tax clerical positions to professional level classifications. These new staff members are more qualified to conduct the analysis necessary to determine whether a taxpayer qualifies as a business operating in the City of San Diego. As a direct result of this staffing change, communication with taxpayers has significantly improved and complaints have decreased.

By December 2007, staff were fully trained and the Business Tax program was ready to incrementally release the remaining 35,000 billing statements. As of this date, all but 18,000 notices from the 2005 FTB data file have been mailed. In Fiscal Year 2009, it is estimated that the FTB program will generate \$3.6 million. This represents the remainder of the 2005 FTB data file and 2006 and 2007 FTB data files. In subsequent years, it is projected that this FTB compliance effort will bring in approximately \$1.0 million in annual renewal and new account revenue.

Although the new process has significantly lengthened the time it takes to bring business owners into compliance, it has proven to be a much more customer friendly approach and has reduced route slips and customer complaints. The FTB program has collected \$2.8 million since inception and 8,879 new Business Tax accounts have been established, of which 6,855 remain active and renewable. As of this date, 34% of taxpayers notified and presumed to be out-of-compliance have paid the Business Tax.



Robbin Kulek
Treasury Operations Manager



Gail R. Granewich
City Treasurer

cc: Jay M. Goldstone, Chief Operating Officer
Mary Lewis, Chief Financial Officer